



MICHAEL J. MURPHY
State Treasurer

First Quarter 2001

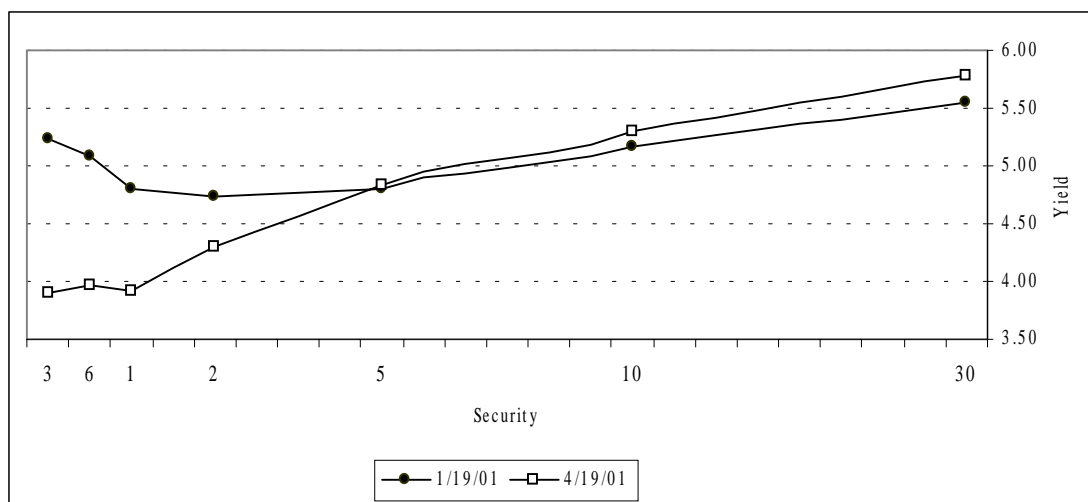
The QUARTERLY

Local Government Investment Pool

What a ride! Greenspan, we're all watching

Notice anything different?

That's right, the LGIP newsletter has a new look. The Office of the State Treasurer, in an effort to standardize the publications we distribute, has created a new look for the LGIP newsletter, now known as "*The Quarterly*." Look for *The Quarterly* to provide you with valuable LGIP news, upcoming events, statistical and financial information, and market updates. Don't miss out. As the name implies, look for it *Quarterly*.



Historical Yield Curve
Jan. 19, 2001 vs. April 19, 2001

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Active Fed means interesting mix of economic information

What a ride throughout the first, and beginning of the second, quarters of 2001! The Federal Open Market Committee (FOMC) eased another 150 basis points (bp) since its first unexpected move of 50 bps on January 3, 2001. The Fed followed up with 50 bp moves at its January 31 and March 20 meetings and then recently moved an additional 50 bps on April 18.

This latest move came as a complete surprise to the market. In later comments, the Fed stated, "...capital investment has continued to soften and the persistent erosion in current and expected profitability, in combination with rising uncertainty about the business outlook, seems poised to dampen capital spending going forward."

"This potential restraint, together with the possible effects of earlier reductions in equity wealth on consumption and the risk of slower growth abroad, threatens to keep the pace of economic activity unacceptably weak. As a consequence, the Committee agreed that an adjustment in the stance of policy is warranted during this extended intermeeting period."

Throughout the quarter, economic data continued to send mixed signals. Toward the end of the quarter, positive reports on motor vehicle sales and construction spending supported the view that

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Market summary

from page 1

the Fed acted early and forcefully enough to brake the downturn, setting the stage for a solid second-half recovery. However, negative readings of consumer confidence, the corporate hiring outlook and the high-tech earnings outlook have supported the view that the threat of recession still looms large. Due to the unexpected Fed action on April 18, the FOMC obviously felt this recession possibility was too great to ignore until its next meeting on May 15.

Since our last update on January 19, the yield curve has developed a flatness out to the one-year area of the curve followed by a marked steepening outside of one year. The curve now has more of a "normal" positive shape with yields higher as you extend out the curve. The rally in the short-end of the curve has been nothing short of amazing. Yields have decreased 134, 113, 88, and 43 basis points (bp) in the 3-month, 6-month, 1-year, and 2-year sectors, respectively. Traders in the long-end, however, have had to endure a slight backup with yields increasing by 3, 13, and 24 bp in the 5-, 10-, and 30-year sectors, respectively, as shown in the Historical Yield Curve graph (see chart on page 1).

Throughout this period, the Dow Jones Industrial Average was extremely volatile, dropping as low as 9,389 on March 22, with its high close on February 1 at 10,984. The Dow closed at 10,694 on April 19.

Since our last update, the NASDAQ got hammered, peaking at 2,859 on January 24 and dropping to a low of 1,639 on April 4. The NASDAQ closed at 2,182 on April 19. Both indexes recovered slightly after each Fed action but then continued with sporadic trading. Furthermore, inadequate corporate earnings expectations have not helped the equity situation.

The net return on the LGIP during the first quarter of 2001 ranged from 6.23 percent to 5.23 percent. Currently, there are no investment opportunities providing positive carry (i.e., yields above the fed funds rate of 4.5 percent). The LGIP has extended its average life in anticipation of further Fed eases. In an easing environment, the LGIP wants to have a longer average life to preserve its yield and thus lag the easing in rates.

Despite this extension, the LGIP is positioned to provide adequate liquidity to LGIP participants and take advantage of any cheapness in the yield curve.

It's official: Four-years can join LGIP

Governor Locke on April 16 signed House Bill 1623, which will allow four-year public institutions of higher education to participate in the LGIP. As mentioned in our last newsletter, this proposal was viewed by advisory committee members as positive for current LGIP participants and for the universities and received the unanimous support of the committee. We look forward to serving our new clients.

Earthquake recovery plan works

As you know, on Feb. 28 the Puget Sound area experienced an earthquake that made a seemingly non-eventful month-end, one we will never forget.

It became apparent the Office of the State Treasurer would not be returning to the Legislative Building (i.e. dome) any time soon. As a result, the Business Continuity Plan was implemented and the Pool was relocated immediately to the State Investment Board.

The first concern was ensuring that LGIP participants could transact business and that month-end processing could be done in a timely manner. To ensure a smooth transition, every resource of the Investment Section was utilized and the Pool was ready for business at 7 a.m. on March 1.

Administration of the LGIP was handled out of the General Administration Building until March 30, when the Administration, Investment and Debt sections of OST moved to the Sunset Life Building in Olympia. Repair of the Legislative Building progressed so OST was able to get back into its "home in the dome" on April 27. If you have comments about the emergency transition, contact Tracie Kier, LGIP administrator, at 1-800-331-3284.

LGIP Advisory Committee

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LGIP holiday schedule 2001

Monday	May 28	Memorial Day
Wednesday	July 4	Independence Day
Monday	Sept. 3	Labor Day
Monday	Oct. 8	Columbus Day
Monday	Nov. 12	Veteran's Day
Thurs/Friday	Nov. 22/23	Thanksgiving
Tuesday	Dec. 25	Christmas Day

EVENTS

Need a refresher on the basics of investing?

The Washington Finance Officers Association (WFOA) is offering a non-conference training opportunity that includes a two-hour *Basics of Investing* class.

Doug Extine, Deputy Treasurer, and Cristin Wilson, LGIP Portfolio Manager, will teach this class on the following dates:

- July 23 in Port Orchard
- July 24 in Tumwater
- July 26 in Yakima

Visit the WFOA web-site at www.mrsc.org/associations/wfoa/training.htm to find out more about this class and other training opportunities.

Don't miss WFOA 2001

September is quickly approaching and you don't want to miss the Washington Finance Officers Association (WFOA) 2001 conference in Wenatchee. The class schedule is packed with useful information, including an entire investment track which progresses from investing basics to more advanced topics. There will be debt management, accounting and technology classes, too.

Want to know how those skyrocketing utility rates are set? There will be a class specifically addressing this hot issue.

Want to know more? Visit the WFOA web-site at www.wfoa.org/conferen.htm.

Update on the Web-Client server: Come see how it works for you

We are progressing through the Phase III testing process of the interactive portion of the Web-Client, which will allow users to transact business via the Internet. There will be a session at the WFOA Conference demonstrating the Web-Client's functionality, so come to the LGIP session so you can get familiar with this exciting development.

The current application of the Web-Client continues to serve participants with information on their LGIP account, including a list of authorized persons, bank account information, and historical account summaries.

We appreciate your helping us keep our records up to date when you have personnel changes by completing the LGIP Transaction Authorization form. There is a cost associated with each Web-Client logon and password, so please remember to complete the Web-Client Logon Authorization form as well, especially when removing an authorized user. Copies of the forms are on the LGIP Web page or contact Tracie Kier, LGIP Administrator, at tracie@tre.wa.gov or 1-800-331-3284.

LGIP Advisory Committee: A summary of busy March meeting

The LGIP Advisory Committee met March 16, 2001, at Tumwater Valley Bar and Grill Restaurant in Tumwater. (Note: Due to the earthquake and the subsequent closure of the Legislative Building, the meeting was held off-site). Treasurer Murphy gave a brief report on the emergency relocation of the LGIP to the State Investment Board. There was no disruption to the LGIP administration and daily transaction processing. Several committee members expressed appreciation for the excellent transition process.

OST gave a brief update on the net LGIP returns for December 2000 through February 2001. The average net return of the LGIP was 6.12 percent, while the average fed funds rate was 6.01 percent. The market has still priced in further Fed moves, which is keeping every sector of the curve significantly negative carry, or below the fed funds rate. The average life of the LGIP is 65 days. To maintain the "pre-ease" levels, the LGIP expects to maintain this longer average life.

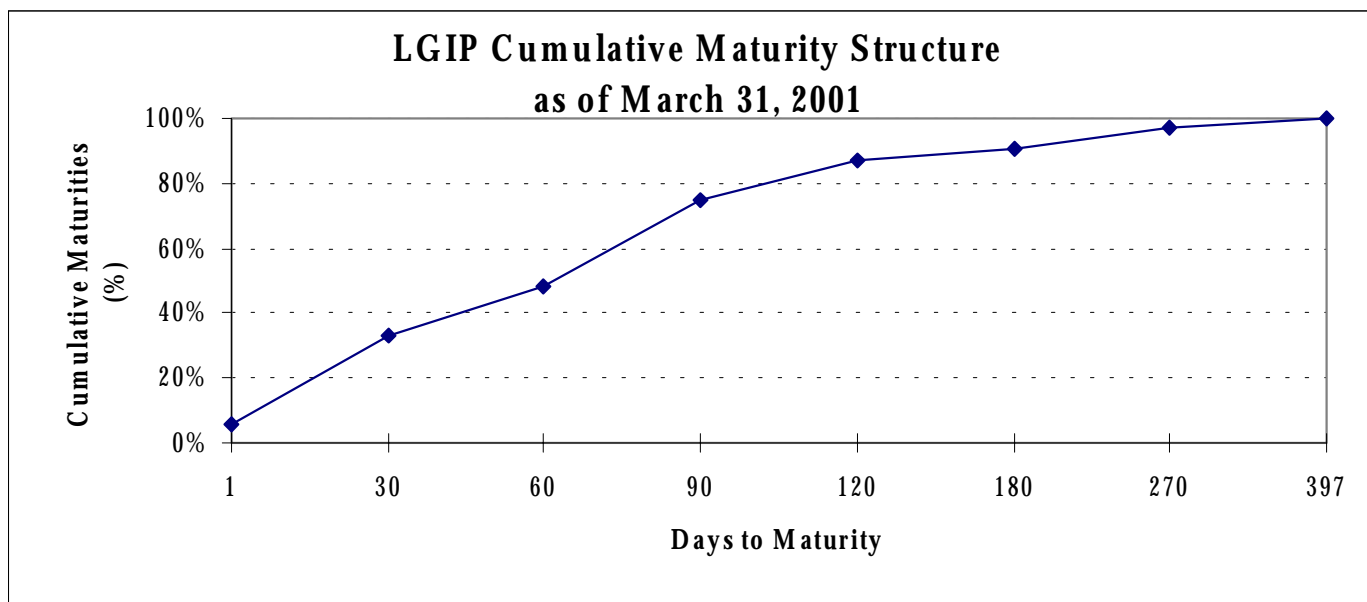
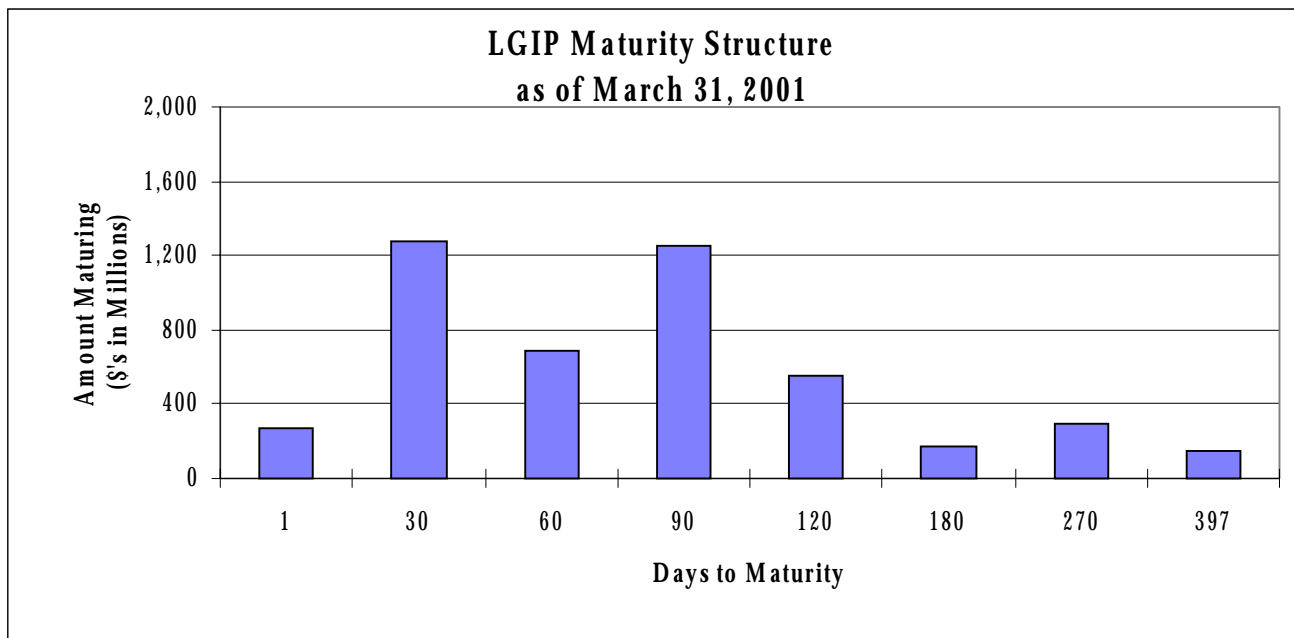
Treasurer Murphy announced expiring appointments of committee members Bob Dantini, Mark Wyman, and Dan Underwood. These three members were reappointed to three-year terms to expire April 30, 2004. Tim Jensen's appointment will expire April 30, 2001. He will not be reappointed by Treasurer Murphy because of pending legislation that will allow four-year universities to join the LGIP. Treasurer Murphy would like to appoint a higher education representative to serve on the advisory committee.

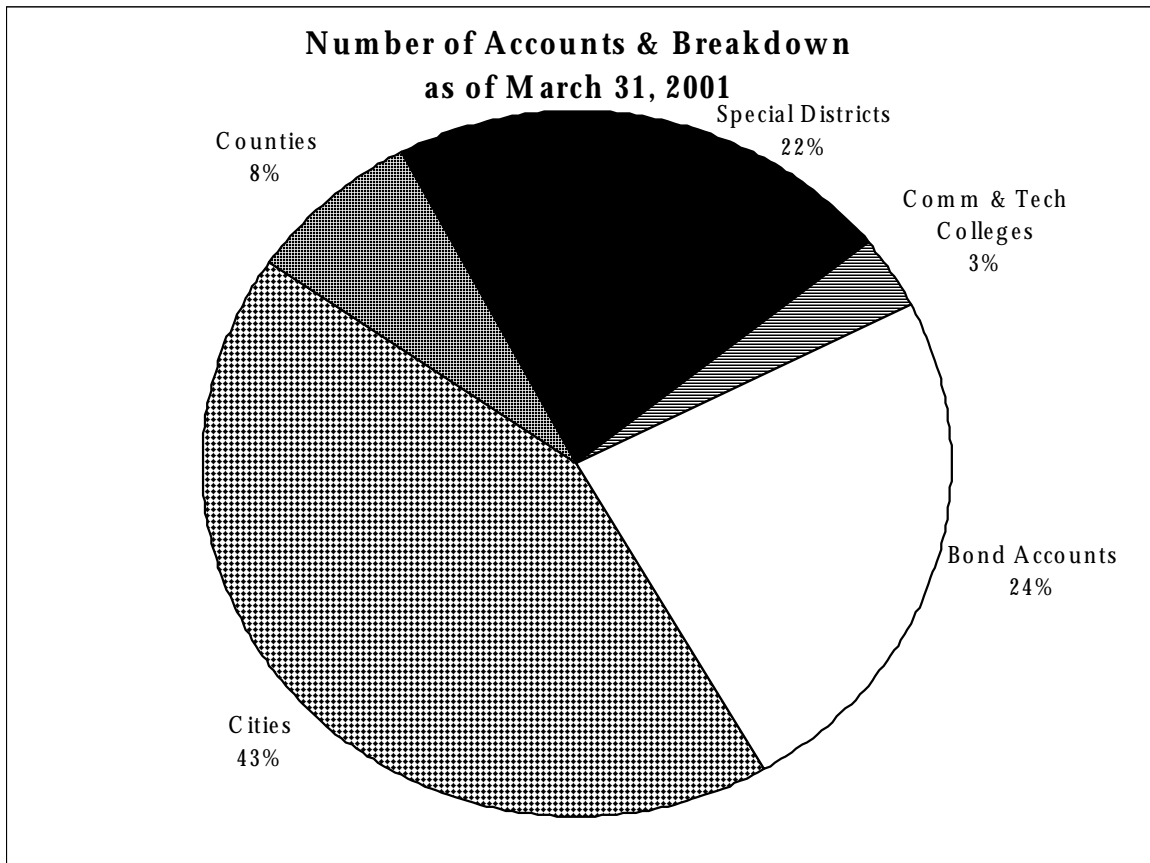
The Fiscal Year 2001 actual and projected expenses were reviewed with committee members. FY 2001 expenses through January 2001 were \$309,167, which is about \$21,100 under budget. Due to the large average daily balance, the LGIP is running almost \$158,000 ahead of the original estimated rebate for FY 2001.

A brief update was given on the proposed legislation which would enable four-year universities to join the Local Government Investment Pool for the investment of surplus public funds.

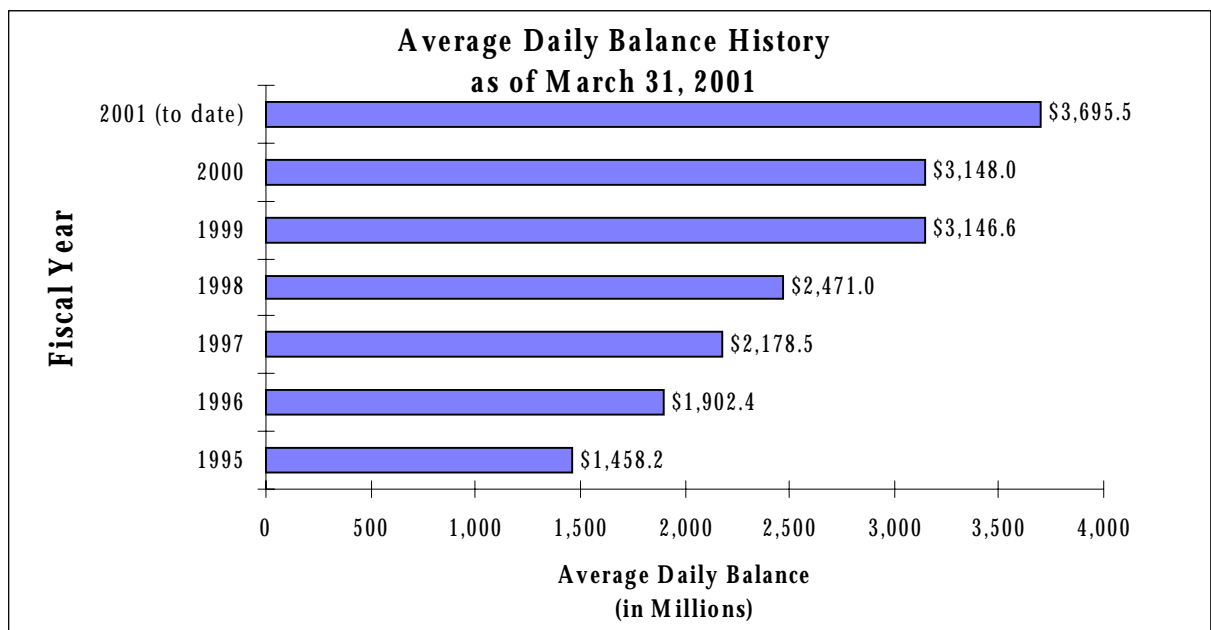
A brief update on Phase III of the TM\$ project was given. Programmers are 85 percent complete with the LGIP transaction side of TM\$ and internal testing is in process. Internal testing for administration and interest allocation will begin this spring. OST will send an e-mail to advisory committee members later this spring to ask for volunteer Beta testers.

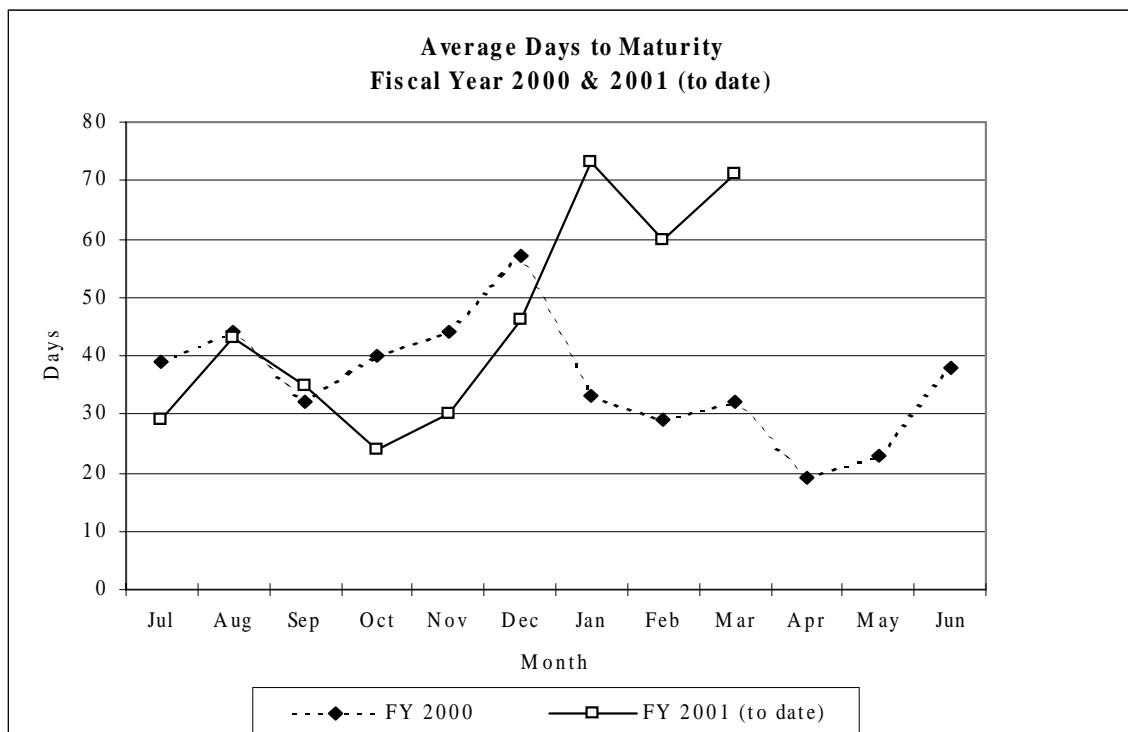
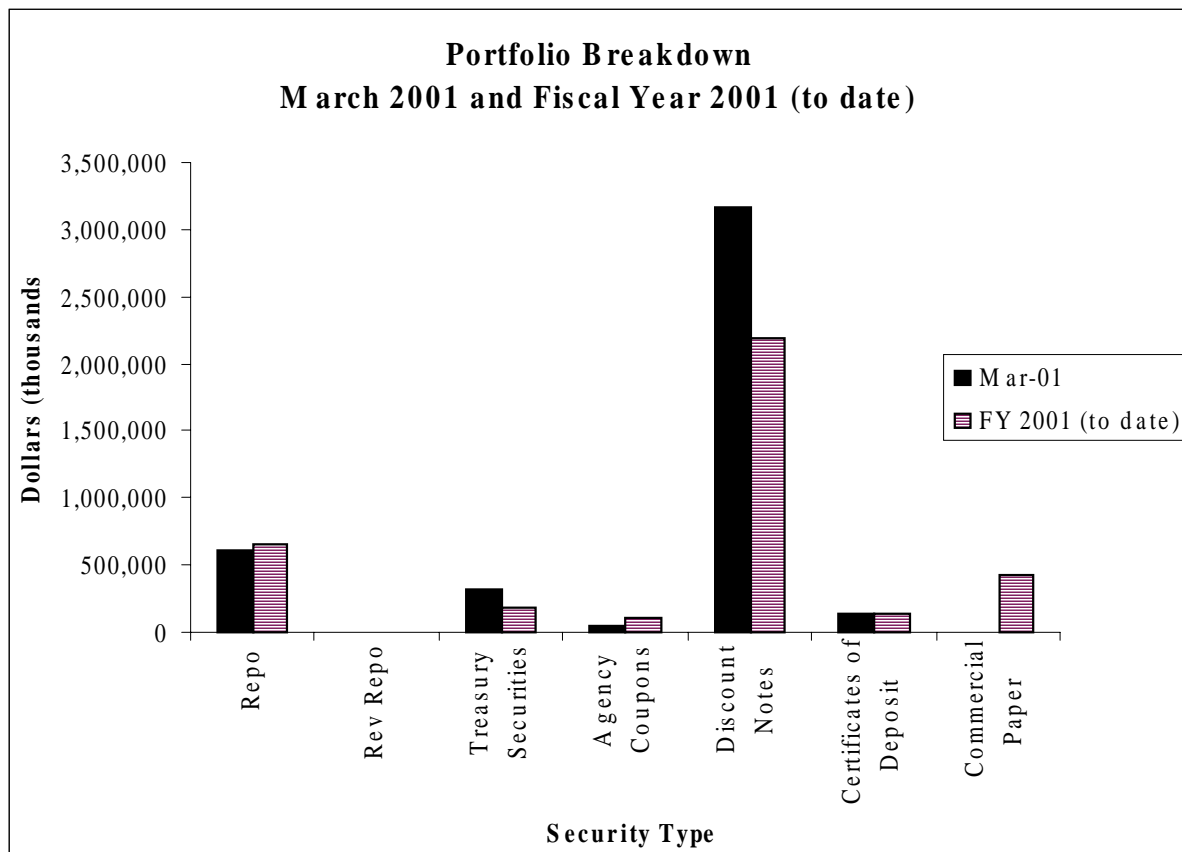
Committee members heard a brief report on a question asked at the December meeting about using ACH for funds transfer. Funds must be transferred within a certain "window" for a same-day settlement to occur. If funds are transferred after the cutoff time, there could be a one-day delay, and the entity would be responsible for that delay. Members reached consensus that the wire process is the best means for funds transfer.





Total number of accounts: 504





Looking for benchmark data? Look no further than the OST web-site

In response to requests from local governments, the OST Web-site now has historical data for you to use for benchmarking purposes. The historical data begins on January 1998 and will be updated monthly as data becomes available. The benchmark information includes data from the following four sources:

1. LGIP net yields;
2. Money-market index net yields – comprised of privately managed money market funds with similar portfolio compositions and investment restrictions as the LGIP;
3. Two-year Treasury ladder – the average yield to maturity of the previous 24-months' 2-year Treasury notes; and,
4. Five-year Treasury ladder – the average yield to maturity of the previous 5-years' 5-year Treasury notes.

In order to provide an example of the information on the web-site, below you will find yield information for calendar year 2000 through March 2001. A complete list of the benchmark information can be found on the OST web-site at <http://www.wa.gov/tre/invest.htm>

	LGIP	Money Market	2YR	5YR
	Net Yield	Index	Ladder	Ladder
	Net Yield	Net Yield	Yield	Yield
Jan-00	5.5359	4.9907	5.3035	5.9066
Feb-00	5.6800	5.1879	5.3449	5.8752
Mar-00	5.7658	5.3162	5.3888	5.8971
Apr-00	5.9482	5.4542	5.4338	5.8792
May-00	6.1052	5.5726	5.4674	5.8636
Jun-00	6.3786	5.8192	5.5182	5.9021
Jul-00	6.4692	5.8981	5.5594	5.9021
Aug-00	6.4428	5.9573	5.5931	5.8968
Sep-00	6.4631	5.9770	5.6381	5.8988
Oct-00	6.4431	5.9573	5.6959	5.8948
Nov-00	6.4644	5.9967	5.7717	5.8962
Dec-00	6.4526	5.9375	5.8161	5.8980
Jan-01	6.2324	5.6022	5.8345	5.9034
Feb-01	5.6685	5.1386	5.8422	5.9120
Mar-01	5.2292	4.8427	5.8162	5.9158

Washington State Local Government Investment Pool
Position and Compliance Report
as of March 31, 2001
(Settlement Date Basis)

LGIP Portfolio Holdings

	Cost	Percentage of Portfolio
Repurchase Agreements	\$ 773,510,000	16.74
U.S. Treasury Securities	504,683,144	10.92
U. S. Agency Bullets	50,184,144	1.09
U.S. Agency Generic Floaters	.....	0.00
U.S. Agency Discount Notes	3,163,184,947	68.45
Certificates of Deposit	129,450,000	2.80
Bankers Acceptances	.....	0.00
Commercial Paper	.....	0.00
Reverse Repos	.....	0.00
*Total Excluding Securities Lending	\$ 4,621,012,235	100.00

Securities Lending Holdings

	Cost
Repurchase Agreements	\$ 242,196,652
Banker's Acceptances	
Commercial paper	
Total Securities Lending	242,196,652

Total Investments &

Certificates of Deposit	\$ 4,863,208,887
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Policy Limitations

*The policy limitations include investment of cash collateral by a securities lending agent calculated as percentages of the portfolio holdings Total Excluding Securities Lending.**

<u>Size Limitations</u>	Holdings	Percentage of Portfolio	Policy Limitations Percentage
Certificates of Deposit	129,450,000	2.80	10%
Bankers Acceptances (BA)	0.00	20%
Commercial Paper (CP)	0.00	25%
Securities With Higher Volatility	0.00	10%
Repos Beyond 30 days	0.00	30%
Aggregate BA & CP Holdings	0.00	35%

Leverage (30% Total Limit)

Securities on Loan (dollars out on loan)	\$ 236,833,464	
Reverse Repos	.....
Total Leverage	\$ 236,833,464	5.13%

Maturity Limitations

	<u>Currently</u>	<u>Policy Limitations</u>
Portfolio Average Life	72 days	90 days
Maximum Maturity	314 days	397 days
Maximum Maturity of Repo	10 day(s)	180 days
Maximum Maturity of Reverse Repo	0 day(s)	90 days
Average Life of Reinvestment of Cash by Lending Agent	1 day(s)	14 days

Policy Limitations (Continued)

Repo Limits Per Dealer

	March 31, 2001	Total Repo Percentage (20% limit)	Term Repo Percentage (10% limit)	Projected Redemptions 4/3/01	Projected Position 4/3/01
Banc of America Securities LLC	\$ 88,510,000	2%	0%	88,510,000	.....
Bank of New York	.....	0%	0%		.....
Barclays Capital Markets	.....	0%	0%		.....
Bear Stearns & Co.	200,000,000	4%	4%		200,000,000
CS First Boston	.....	0%	0%		.....
Chase Manhattan	.....	0%	0%		.....
Daiwa Securities America Inc.	100,015,194	2%	0%	100,015,194	.....
Dresdner Securities USA	.....	0%	0%		.....
Greenwich Capital Markets Inc.	.....	0%	0%		.....
Lehman Brothers Inc.	.....	0%	0%		.....
Merrill Lynch & Co., Inc.	95,000,000	2%	0%	95,000,000	.....
Morgan Stanley	.....	0%	0%		.....
Nesbitt Burns	100,000,000	2%	2%		100,000,000
Nomura Securities Intl Incorporated	42,166,347	1%	0%	42,166,347	.....
Paribas Corporation	100,015,111	2%	0%	100,015,111	.....
Prudential Securities	.....	0%	0%		.....
Salomon-Smith Barney	.....	0%	0%		.....
UBS Warburg LLC	290,000,000	6%	4%	90,000,000	200,000,000
Total	\$ 1,015,706,652			515,706,652	500,000,000

Issuer Limitations

** Commercial Paper

Cost	Percentage (5% limit)	Rating (A1/P1 or Better)
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No Commercial Paper holdings as of 3/31/2001.

Total	-	0.0%
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Banker's Acceptances

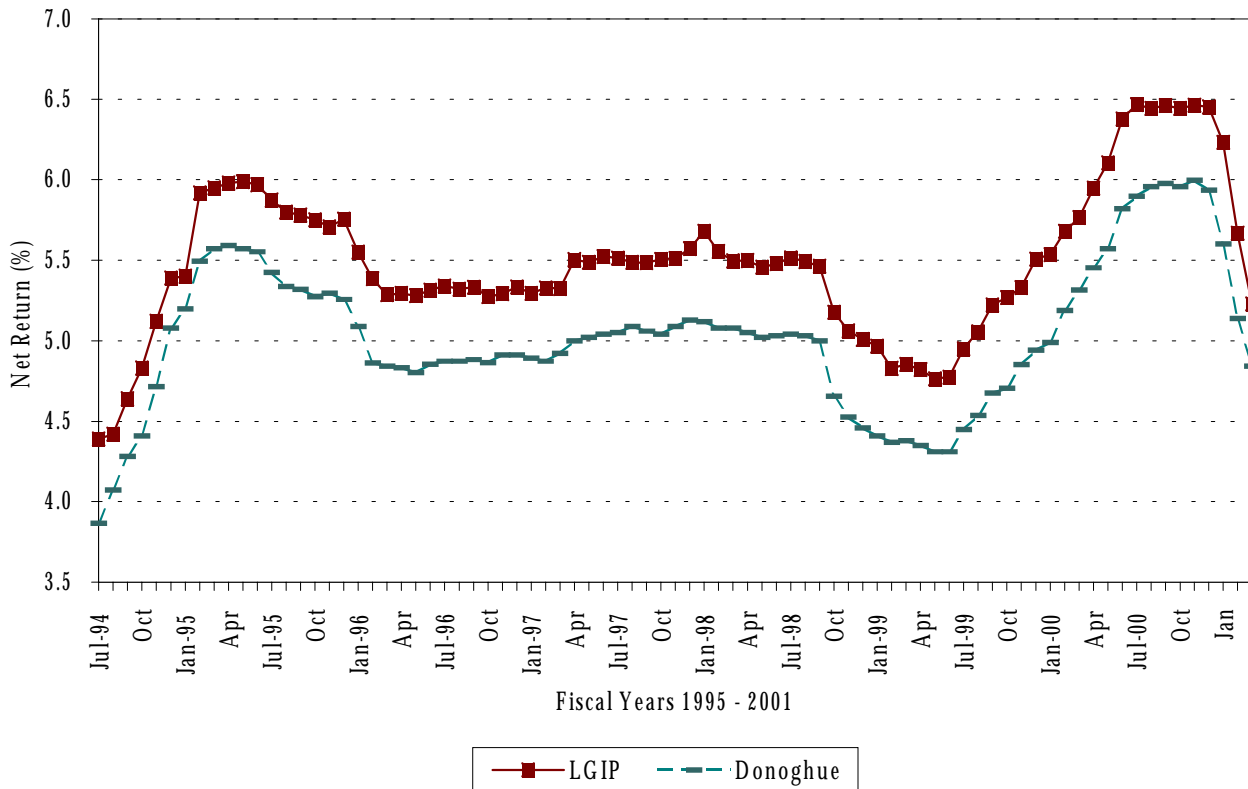
No Banker's Acceptance holdings as of 3/31/2001.

Total	-	0.0%
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** These are the limitations of the formal Investment policy. However, operating guidelines place limits of 3% per issuer.

LGIP Performance Comparison

*** iMoneyNet, Inc., Government Only/Institutional Only
versus
Local Government Investment Pool**



Net Rate of Return Fiscal Years 1995 – 2001 (to date)

Average Net Rate of Return of Government Only/Institutional Only Money Market Funds, Money Market Insight, iMoneyNet, Inc., Westborough, MA.

NOTE: Rates are calculated on a 360-day basis.

The above comparison shows how the LGIP has performed relative to its benchmark since July 1994. This benchmark is the iMoneyNet, Inc., Government Only/Institutional Only Money Market Funds, which is comprised of privately managed money market funds similar in composition and investment guidelines to the LGIP.

The LGIP net rate of return has outperformed its benchmark since July 1994 by an average of 46.4 basis points. This translates into the LGIP earning \$79.07 million over what the average comparable private money fund would have generated.

* Formerly IBC Financial Data

Local Government Investment Pool

STATEMENT OF NET ASSETS

March 31, 2001

Assets

Investments, at amortized cost:	
Repurchase Agreements	773,510,000
U.S. Agency Coupons	50,184,144
U.S. Agency Discount Notes	3,163,184,947
U.S. Treasury securities	504,683,144
Commercial Paper	
Total excluding Securities Lending & Securities Purchased But Not Settled	4,491,562,235
Securities Lending Investments, at amortized cost:	
Repurchase Agreements	242,196,652
Total Securities Lending	242,196,652
Total Investments (Settlement Date Basis)	4,733,758,887
Total Investments (Trade Date Basis)	4,733,758,887
Certificates of Deposit	129,450,000
Cash	52,210
Interest receivable	10,979,441
Total Assets	4,874,240,538

Liabilities

Accrued expenses	957,774
Obligations under securities lending agreement	<u>242,196,652</u>
Total Liabilities	243,154,426

Net Assets

\$ 4,631,086,112

Participant Net Asset Value, Price per Unit

\$ 1.00

Total Amortized Cost - Settlement Date Basis

\$ 4,863,208,887

QUARTER AT A GLANCE

January 1, 2001 - March 31, 2001

Total investment purchases:	\$	23,740,520,945
Total investment sales:	\$	1,152,025,235
Total investment maturities:	\$	21,863,448,775
Total net income:	\$	57,151,970
Net of realized gains and losses:	\$	601,059
Net Portfolio yield (360-day basis):		

January	6.2324%
February	5.6685%
March	5.2292%

Average weighted days to maturity:

71 days

WASHINGTON STATE LOCAL GOVERNMENT INVESTMENT POOL
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OLYMPIA WA 98504-0200

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